

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-----------------------------------|--|----------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Lowell Light & Power and Cable Television | County Kent |
| Fiscal Year End June 30, 2006 | Opinion Date November 10, 2006 | Date Audit Report Submitted to State December 4, 2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

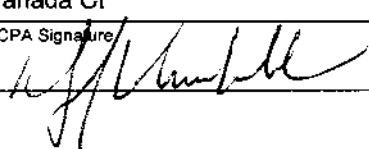
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|--------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Vredeveld Haefner LLC | | Telephone Number 616-446-7474 | |
| Street Address 4001 Granada Ct | | City Grand Rapids | State MI |
| Authorizing CPA Signature  | | Printed Name Douglas J. Vredeveld | Zip 49534 |
| | | License Number 21289 | |



Vredeveld Haefner LLC

CPA's and Consultants

4001 Granada Ct.

Grand Rapids, MI 49534

FAX (616) 828-0307

Douglas J. Vredeveld, CPA

(616) 446-7474

Peter S. Haefner, CPA

(616) 460-9388

November 10, 2006

Board Members

Lowell Light & Power and Lowell Cable Television

City of Lowell, Michigan

In planning and performing our audit of the financial statements of Lowell Light & Power and Lowell Cable Television (the "Utilities") for the year ended June 30, 2006, we noted certain matters involving internal control and/or operations which we would like to bring to your attention. These matters were reviewed with management and we will review these matters during future audits.

NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board recently issued Statement No. 43 *Financial Reporting for Post Employment Plans and Other Than Pension Plans*. This Statement will become effective for the Utilities for the 2007-2008 year, and will require additional disclosure, an actuarial or other valuation of those employee benefits granted to retirees, and recognition of expenses in the financial statements for the costs associated with providing post employment health care benefits during the period an employee renders services to the Utilities. We suggest that your staff become familiar with the requirements of this statement and take appropriate action to assure information is available for the 2007-2008 year to appropriately account for and disclose the Utilities' post employment benefit plans. We would be happy to work with your staff to implement these significant new accounting standards.

This report is intended solely for the information and use of the Boards and Management of Lowell Light & Power and Lowell Cable Television, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Vredeveld Haefner LLC

**LOWELL LIGHT & POWER
AND
LOWELL CABLE TELEVISION
LOWELL, MICHIGAN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| Independent Auditors' Report | 1 |
| Basic Financial Statements | |
| Statement of Net Assets | 4 |
| Statement of Revenues, Expenses, and Changes in Net Assets | 5 |
| Statement of Cash Flows | 6-7 |
| Notes to Financial Statements | 8-17 |
| Combining and Individual Fund Schedules | |
| Lowell Light & Power | |
| Schedule of Operating Revenues and Expenses | 20-21 |
| Lowell Cable Television | |
| Schedule of Operating Revenues and Expenses | 22-23 |



Vredevelde Haefner LLC
CPA's and Consultants
4001 Granada Ct.
Grand Rapids, MI 49534
FAX (616) 828-0307

Douglas J. Vredevelde, CPA
(616) 446-7474
Peter S. Haefner, CPA
(616) 460-9388

INDEPENDENT AUDITORS' REPORT

November 10, 2006

Members of the Board
Lowell Light & Power and Lowell Cable Television
Lowell, Michigan

We have audited the accompanying financial statements of Lowell Light & Power and Lowell Cable Television, (enterprise funds of the City of Lowell, Michigan), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the management of Lowell Light & Power and Lowell Cable Television. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in note 1, the financial statements present only the Lowell Light & Power and Lowell Cable Television Enterprise Funds and do not purport to, and do not present fairly the financial position of the City of Lowell, Michigan, or the changes in its financial position or cash flows in conformity with accounting principals generally accepted in the United States of America.

Lowell Light & Power and Lowell Cable Television have not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lowell Light & Power and Lowell Cable Television Enterprise Funds as of June 30, 2006, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on Lowell Light & Power and Lowell Cable Television's basic financial statements. The individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Vredevelde Haefner LLC

Specializing in services to governmental and nonprofit entities

LOWELL LIGHT & POWER AND CABLE TELEVISION

PROPRIETARY FUNDS STATEMENT OF NET ASSETS

JUNE 30, 2006

| | Business-Type Activities | | Total |
|---|--------------------------|---------------------|--------------|
| | Light & Power | Cable Television | |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 205,467 | \$ 172,003 | \$ 377,470 |
| Investments | 1,083,565 | - | 1,083,565 |
| Restricted cash and cash equivalents | 370,232 | 8,785 | 379,017 |
| Restricted investments - MPPA trust | 296,134 | - | 296,134 |
| Accounts receivable | 784,752 | 19,860 | 804,612 |
| Current portion of advances receivable | 50,666 | - | 50,666 |
| Inventory | 1,518 | - | 1,518 |
| Prepaid expenses | 30,698 | 10,079 | 40,777 |
| Total current assets | 2,823,032 | 210,727 | 3,033,759 |
| Non-current assets | | | |
| Restricted cash and cash equivalents | 393,013 | - | 393,013 |
| Advance receivable from Michigan Public Power Association | 44,943 | - | 44,943 |
| Advance receivable from Lowell Cable Television | 469,457 | - | 469,457 |
| Capital assets | | | |
| Land | 199,157 | - | 199,157 |
| Construction in progress | 494,442 | 22,644 | 517,086 |
| Vehicles, plant and equipment | 15,530,218 | 2,273,756 | 17,803,974 |
| Accumulated depreciation | (7,204,836) | (1,748,252) | (8,953,088) |
| Total non-current assets | 9,926,394 | 548,148 | 10,474,542 |
| Total assets | 12,749,426 | 758,875 | 13,508,301 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | 471,837 | 64,469 | 536,306 |
| Accrued liabilities | 112,798 | 32,685 | 145,483 |
| Due to other governmental entities | 27,909 | 828 | 28,737 |
| Current portion of advances payable | - | 50,666 | 50,666 |
| Current portion of bonds payable | 140,000 | - | 140,000 |
| Customer deposits | 164,267 | 8,785 | 173,052 |
| Total current liabilities | 916,811 | 157,433 | 1,074,244 |
| Non-current liabilities | | | |
| Compensated absences | 32,793 | 16,904 | 49,697 |
| Advances payable | - | 469,457 | 469,457 |
| Bonds payable | 4,644,903 | - | 4,644,903 |
| Total non-current liabilities | 4,677,696 | 486,361 | 5,164,057 |
| Total liabilities | 5,594,507 | 643,794 | 6,238,301 |
| Net assets | | | |
| Investment in capital assets net of related debt | 4,234,078 | 548,148 | 4,782,226 |
| Debt service | 410,839 | - | 410,839 |
| Unrestricted | 2,510,002 | (433,067) | 2,076,935 |
| Total net assets | \$ 7,154,919 | \$ 115,081 | \$ 7,270,000 |

The accompanying notes are an integral part of these financial statements.

LOWELL LIGHT & POWER AND CABLE TELEVISION

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

| | <u>Business-Type Activities</u> | | |
|---|---------------------------------|-----------------------------|---------------------|
| | <u>Light & Power</u> | <u>Cable Television</u> | <u>Total</u> |
| Operating revenue | | | |
| Sales | \$ 5,503,414 | \$ 1,142,399 | \$ 6,645,813 |
| Late fees | 49,179 | 24,911 | 74,090 |
| Other | 59,365 | 81,132 | 140,497 |
| Total operating revenue | <u>5,611,958</u> | <u>1,248,442</u> | <u>6,860,400</u> |
| Operating expense | | | |
| Operations and maintenance | 5,028,697 | 1,115,266 | 6,143,963 |
| Depreciation | 588,676 | 63,871 | 652,547 |
| Total operating expense | <u>5,617,373</u> | <u>1,179,137</u> | <u>6,796,510</u> |
| Operating income (loss) | <u>(5,415)</u> | <u>69,305</u> | <u>63,890</u> |
| Non-operating revenue (expense) | | | |
| Interest income | 104,562 | 7,459 | 112,021 |
| Interest expense | (226,054) | (21,866) | (247,920) |
| Total non-operating revenue (expense) | <u>(121,492)</u> | <u>(14,407)</u> | <u>(135,899)</u> |
| Income (loss) before transfers | (126,907) | 54,898 | (72,009) |
| Transfers | | | |
| Transfers out to the City of Lowell | (233,034) | - | (233,034) |
| Changes in net assets | (359,941) | 54,898 | (305,043) |
| Net assets, beginning of year, as restated | <u>7,514,860</u> | <u>60,183</u> | <u>7,575,043</u> |
| Net assets, end of year | <u>\$ 7,154,919</u> | <u>\$ 115,081</u> | <u>\$ 7,270,000</u> |

The accompanying notes are an integral part of these financial statements.

LOWELL LIGHT & POWER AND CABLE TELEVISION

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

| | <u>Business-Type Activities</u> | | |
|--|---------------------------------|-----------------------------|---------------------|
| | <u>Light & Power</u> | <u>Cable Television</u> | <u>Total</u> |
| Cash flows from operating activities | | | |
| Receipts from customers and users | \$ 5,596,483 | \$ 1,139,896 | \$ 6,736,379 |
| Payments to employees | (843,854) | (362,652) | (1,206,506) |
| Payments to suppliers | (4,128,498) | (635,683) | (4,764,181) |
| Net cash provided by (used in) operating activities | <u>624,131</u> | <u>141,561</u> | <u>765,692</u> |
| Cash flows from non-capital financing activities | | | |
| Advances between funds | 48,683 | (48,683) | - |
| Advance to MPPA | (44,943) | - | (44,943) |
| Interest payments | - | (21,866) | (21,866) |
| Transfers out | (233,034) | - | (233,034) |
| Net cash provided by (used in) non-capital financing activities | <u>(229,294)</u> | <u>(70,549)</u> | <u>(299,843)</u> |
| Cash flows from capital and related financing activities | | | |
| Interest payments | (222,304) | - | (222,304) |
| Payments on bonds | (135,000) | - | (135,000) |
| Acquisitions of capital assets | (1,789,042) | (107,755) | (1,896,797) |
| Net cash provided by (used in) capital and related financing activities | <u>(2,146,346)</u> | <u>(107,755)</u> | <u>(2,254,101)</u> |
| Cash flows from investing activities | | | |
| Sales of investments | 1,158,125 | - | 1,158,125 |
| Interest income | 104,562 | 7,459 | 112,021 |
| Net cash provided by (used in) investing activities | <u>1,262,687</u> | <u>7,459</u> | <u>1,270,146</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(488,822)</u> | <u>(29,284)</u> | <u>(518,106)</u> |
| Cash and cash equivalents, beginning of year | <u>1,457,534</u> | <u>210,072</u> | <u>1,667,606</u> |
| Cash and cash equivalents, end of year | <u>\$ 968,712</u> | <u>\$ 180,788</u> | <u>\$ 1,149,500</u> |
| Cash and cash equivalents consists of the following captions on the statement of net assets: | | | |
| Cash and cash equivalents | \$ 205,467 | \$ 172,003 | \$ 377,470 |
| Restricted cash and cash equivalents - current | 370,232 | 8,785 | 379,017 |
| Restricted cash and cash equivalents - non-current | 393,013 | - | 393,013 |
| | <u>\$ 968,712</u> | <u>\$ 180,788</u> | <u>\$ 1,149,500</u> |

(Continued)

The accompanying notes are an integral part of these financial statements.

LOWELL LIGHT & POWER AND CABLE TELEVISION

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED JUNE 30, 2006

| | <u>Business-Type Activities</u> | | <u>Total</u> |
|--|---------------------------------|-------------------------|-------------------|
| | <u>Light & Power</u> | <u>Cable Television</u> | |
| Cash flows from operating activities | | | |
| Operating income (loss) | \$ (5,415) | \$ 69,305 | \$ 63,890 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities | | | |
| Depreciation | 588,676 | 63,871 | 652,547 |
| Change in operating assets and liabilities which provided (used) cash | | | |
| Accounts receivable | (11,843) | 10,797 | (1,046) |
| Inventory | 1,168 | - | 1,168 |
| Prepaid expenses | (1,667) | 1,056 | (611) |
| Accounts payable | 49,872 | (5,598) | 44,274 |
| Accrued liabilities | 690 | (1,086) | (396) |
| Compensated absences | 6,282 | 3,611 | 9,893 |
| Customer deposits | (3,632) | (395) | (4,027) |
| Net cash provided by (used in) operating activities | \$ 624,131 | \$ 141,561 | \$ 765,692 |

(Concluded)

The accompanying notes are an integral part of these financial statements.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lowell Light & Power and Lowell Cable Television, Lowell, Michigan (the "Utilities") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

Lowell Light & Power and Lowell Cable Television are enterprise funds of the City of Lowell (the City). They operate under direction of the City Charter and City Council resolution. The Utilities provide electric and cable television services to users in the City of Lowell and portions of the surrounding area.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of Lowell Light & Power and Lowell Cable Television. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the Utilities.

Fund Financial Statements

Individual enterprise funds are reported as separate columns in the statements. The Utilities report the following enterprise funds:

Light & Power Fund - This fund is used to account for the electricity utility which includes fees and costs associated with the generation, purchase, transmission, distribution and sale of electricity.

Cable Television Fund - This fund is used to account for the fees and costs associated with the distribution, operation and sale of cable television and internet services.

Measurement Focus and Basis of Accounting

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses of the utilities include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utilities has elected not to follow subsequent private-sector guidance.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Utilities consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are recorded at fair value. Investments - MPPA Trust are held in trust and can only be disbursed to the MPPA for purchased power or other purposes.

State statutes authorize the Utilities to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Banker's acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Receivables

All receivables are reported at their net value. Allowance for uncollectible receivables was \$18,367 for Lowell Light & Power and \$5,463 for Lowell Cable Television.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Inventories

Inventories consist principally of diesel fuel and materials and supplies which are generally used for construction or operations. Inventories are stated at cost using the first-in first-out (FIFO) method.

Capital Assets

Capital assets are stated at cost and include items defined by the utilities as assets with an initial, individual cost of more than \$100 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

| | Years |
|---------------------|--------------|
| Vehicles | 5-15 |
| Plant and equipment | 5-50 |

Compensated Absences

Substantially all Utilities employees are granted vacation and sick leave, which accumulates subject to per employee maximums. These hours vest with each employee however, only the accumulated vacation is payable upon termination or retirement. The related liability for accumulated vacation has been recorded as a long-term liability on the financial statements.

Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the Utilities carried commercial insurance to cover risks of losses. The Utilities has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

2. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents and investments are as follows:

| | <u>Total</u> |
|--|--------------------|
| Cash and cash equivalents | \$377,470 |
| Investments | 1,083,565 |
| Restricted cash and cash equivalents - current | 379,017 |
| Restricted Investments - MPPA trust | 296,134 |
| Restricted cash and cash equivalents - long term | 393,013 |
| | <u>\$2,529,199</u> |

Cash and cash equivalents and investments captions consist of the following at June 30, 2006:

| | |
|-----------------------------|--------------------|
| Deposits | \$1,149,500 |
| Mutual funds and securities | <u>1,379,699</u> |
| Total | <u>\$2,529,199</u> |

The deposits are in two financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the Utilities and a specific fund or common account. They are recorded in the Utilities records at fair value. Interest is recorded when earned.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Utilities' deposits may not be returned. State law does not require, and the Utilities do not have, a policy for deposit custodial credit risk. As of year-end, \$986,847 of the Utilities' bank balance of \$1,186,847 was exposed to custodial credit risk.

Investments

The Utilities choose to disclose investments by type. As of year-end, the Utilities had the following deposits and investments:

| | <u>Maturity</u> | <u>Fair Value</u> | <u>Rating</u> | <u>Source</u> |
|-------------------------------------|-----------------|--------------------|---------------|---------------|
| Mutual fund accounts | N/A | \$299,515 | None | |
| GNMA Pool | Through 2006 | 1,306 | AAA | S&P |
| United States Government Securities | Through 2008 | <u>1,078,878</u> | AAA | S&P |
| | | <u>\$1,379,699</u> | | |

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. The Utilities' investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each type of investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1, the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year end.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utilities will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Utilities do not have a policy for investment custodial credit risk. Of the above \$1,080,184 of investments, the Utilities have a custodial credit risk of \$1,080,184 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. The Utilities' custodial credit risk exposure related to the above mutual fund investments cannot be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. The Utilities investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

3. INTERFUND TRANSACTIONS

Transactions between funds consist of advances receivable by Light & Power from Cable Television as follows:

| | Balance July 1, 2005 | Additions | Deletions | Balance June 30, 2006 | Due Within One Year |
|---|----------------------------|-----------|-----------|-----------------------------|------------------------------|
| Lowell Cable Television advance from Lowell Light & Power (consolidation loan) payable in monthly installments of \$5,879 through 2015, including interest at 4% | \$ 568,806 | \$ - | \$ 48,683 | \$ 520,123 | \$ 50,666 |

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Annual payment requirements to maturity on advances outstanding are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|--------------------------------|-------------------|------------------|-------------------|
| 2007 | \$ 50,666 | \$ 19,883 | \$ 70,549 |
| 2008 | 52,730 | 17,819 | 70,549 |
| 2009 | 54,878 | 15,671 | 70,549 |
| 2010 | 57,114 | 13,435 | 70,549 |
| 2011 | 59,440 | 11,109 | 70,549 |
| 2012-2015 | 245,295 | 19,244 | 264,539 |
| Total | \$ 520,123 | \$ 97,161 | \$ 617,284 |

4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

| | Balance July 1, 2005 | Additions | Deletions | Balance June 30, 2006 |
|--|---------------------------------|--------------------|------------------|----------------------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 64,157 | \$135,000 | \$ - | \$199,157 |
| Construction in Progress | 101,898 | 517,086 | 101,898 | 517,086 |
| Total capital assets, not being depreciated | 166,055 | 652,086 | 101,898 | 716,243 |
| Capital assets, being depreciated | | | | |
| Vehicles | 725,520 | - | - | 725,520 |
| Plant and equipment | 15,731,845 | 1,346,609 | - | 17,078,454 |
| Total capital assets, being depreciated | 16,457,365 | 1,346,609 | - | 17,803,974 |
| Less accumulated depreciation for: | | | | |
| Vehicles | 459,991 | 72,766 | - | 532,757 |
| Plant and equipment | 7,840,550 | 579,781 | - | 8,420,331 |
| Total accumulated depreciation | 8,300,541 | 652,547 | - | 8,953,088 |
| Net capital assets, being depreciated | 8,156,824 | 694,062 | - | 8,850,886 |
| Capital assets, net | \$8,322,879 | \$1,346,148 | \$101,898 | \$9,567,129 |

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

5. LONG-TERM DEBT

The following is a summary of the debt transactions of the Utilities for the year ended June 30, 2006.

| | <u>Balance July 1, 2005</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2006</u> | <u>Due Within One Year</u> |
|---|-------------------------------------|------------------|------------------|--------------------------------------|--|
| Light & Power Fund | | | | | |
| Electric Supply System Revenue Bonds, Series 2002; payable in annual amounts of \$130,000 to \$350,000 through 2027, with interest ranging from 3.0% to 5.0% | \$5,035,000 | \$ - | \$135,000 | \$4,900,000 | \$140,000 |

The above balances do not include unamortized discount and issuance costs of \$115,097.

The annual requirements to amortize all debt outstanding as of June 30, 2006 are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|--------------------|--------------------|--------------------|
| 2007 | \$ 140,000 | \$ 216,925 | \$ 356,925 |
| 2008 | 145,000 | 212,651 | 357,651 |
| 2009 | 150,000 | 207,944 | 357,944 |
| 2010 | 155,000 | 202,603 | 357,603 |
| 2011 | 160,000 | 196,593 | 356,593 |
| 2012-2016 | 915,000 | 877,980 | 1,792,980 |
| 2017-2021 | 1,125,000 | 659,965 | 1,784,965 |
| 2022-2026 | 1,430,000 | 355,081 | 1,785,081 |
| 2027-2028 | 680,000 | 34,500 | 714,500 |
| Total | \$4,900,000 | \$2,964,242 | \$7,864,242 |

6. DEFINED BENEFIT PENSION PLAN

Plan Description

The Utilities participate with the City in a defined benefit pension plan. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Funding Policy

The City is required to contribute at an actuarially determined rate, which for the current year was from 11.04% (depending on position) of annual covered payroll. Participating employees are required to contribute 6% of gross wages to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by the City, dependent on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2006, the Utilities share of the City's annual pension cost was \$97,370 for MERS which was equal to the Utilities required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation and (c) additional projected salary increases of 0.0% to 4.2% per year based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

| Three-Year Trend Information | | | |
|------------------------------|-----------------------|--------------------------|--------------------|
| <u>Fiscal Year</u> | <u>Annual Pension</u> | <u>Percentage of APC</u> | <u>Net Pension</u> |
| <u>Ending</u> | <u>Cost (APC)</u> | <u>Contributed</u> | <u>Obligation</u> |
| 6/30/04 | \$90,434 | 100% | \$ - |
| 6/30/05 | 96,184 | 100% | - |
| 6/30/06 | 97,370 | 100% | - |

The schedule of funding progress for the City of Lowell, Michigan, is included in the City's financial statements for the year ended June 30, 2006.

7. JOINT VENTURE

The Utilities is a member of a joint venture, the Michigan Public Power Agency (MPPA), with 13 other municipal electric systems. The MPPA was formed to undertake the planning, financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the State of Michigan and owns and operates a municipal electric system. Effective in October 2005, the members of the power pool (one of MPPA's programs) gave their required five year notice of withdrawal from the pool which will cease on December 31, 2010. Lowell Light & Power is currently in negotiations along with other members of the pool to form a new contract for the sale and purchase of power. Complete financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way, Lansing, Michigan 48917.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Under the joint venture, the Utilities have entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the Utilities to purchase from MPPA 1.24% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No.1, which became operational in August 1984; 11.86% of MPPA's 4.80% ownership in Consumers Energy's Campbell Unit No. 3, which became operational in September 1980; and 5.63% of the energy generated by MPPA's 100% ownership in Combustion Turbine Project No. 1 (50 mw rated simple cycle combustion turbine generating unit and ancillary support facilities located in Kalkaska, Michigan) which became operational in 2004. These contracts require the Utilities to purchase approximately 3, 4.5 and 2.8 megawatts of power, respectively.

For the year ended June 30, 2006, the Utilities recognized expenses totaling \$2,824,078 under the terms of the contract which represented \$653,400 for fixed operating costs, \$923,378 for debt service and \$1,247,300 for the purchase of power. Accounts payable to MPPA totaled \$383,871 at June 30, 2006. Under the terms of its contracts, the Utilities must make minimum annual payments equal to its share of debt service and its share of the operating costs of Detroit Edison's Belle River No. 1, Consumers Energy's Campbell Unit No. 3 and Combustion Turbine Project No. 1. Future operating costs are estimated based on 2006 costs adjusted for inflation.

A summary of future contract payments with the MPPA is as follows:

| Year Ending June 30 | Belle River | | Campbell | | Combustion Turbine | |
|------------------------|-------------------------|--------------------|-------------------------|--------------------|-------------------------|--------------------|
| | <u>Debt Service</u> | <u>Operating</u> | <u>Debt Service</u> | <u>Operating</u> | <u>Debt Service</u> | <u>Operating</u> |
| 2007 | \$ 340,901 | \$ 268,149 | \$ 439,499 | \$ 329,070 | \$ 143,626 | \$ 75,783 |
| 2008 | 340,948 | 276,194 | 439,813 | 338,942 | 143,776 | 78,057 |
| 2009 | 340,905 | 284,480 | 439,710 | 349,110 | 143,634 | 80,398 |
| 2010 | 340,911 | 293,014 | 358,507 | 359,583 | 143,672 | 82,810 |
| 2011 | 340,962 | 301,804 | 360,547 | 370,371 | 143,877 | 85,295 |
| 2012-2016 | 1,704,667 | 1,650,390 | 723,965 | 774,408 | 718,506 | 466,426 |
| 2017-2021 | 681,891 | 731,552 | - | - | 718,645 | 540,715 |
| 2022-2026 | - | - | - | - | 718,681 | 626,837 |
| 2027 | - | - | - | - | 143,695 | 136,873 |
| Total | \$4,091,185 | \$3,805,583 | \$2,762,041 | \$2,521,484 | \$3,018,112 | \$2,173,194 |

Debt Service requirements expire in the years 2013, 2018, and 2027 for the Campbell, Belle River and Combustion Turbine Projects, respectively. The above amounts include estimated operating costs for the same period as the Debt Service. The contracts for the Utilities' commitment for operating costs to extend beyond these dates are dependent upon the use of the facilities.

The joint venture is a result of an ongoing financial responsibility. The Utilities did not have an initial equity interest and do not participate in net income or losses.

LOWELL LIGHT & POWER AND LOWELL CABLE TELEVISION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

8. OTHER POST EMPLOYMENT BENEFITS

The City provides health care insurance benefits to retired full-time employees. Currently there are 6 retirees eligible. The utilities recognized the cost of the post employment health care benefits when the payments are made. During 2006, the amount expended for post employment benefits was \$36,612.

9. COMMITMENTS

As of year end the Utilities had outstanding commitments of approximately \$120,000 for Light & Power fund construction projects.

10. PRIOR PERIOD ADJUSTMENTS

Beginning net assets has been increased in the Light & Power fund by \$56,383 to reflect a decrease in compensated absences at June 30, 2005. Beginning net assets in the Cable Television fund has been increased by \$5,049 to reflect a \$21,041 decrease in accounts receivable and a \$26,090 decrease in compensated absences payable at June 30, 2005.

LOWELL LIGHT & POWER AND CABLE TELEVISION

LIGHT & POWER *SCHEDULE OF OPERATING REVENUES AND EXPENSES*

FOR THE YEAR ENDED JUNE 30, 2006

Operating revenue

| | |
|-----------------------------------|--------------|
| Sales | |
| Residential | \$ 1,489,431 |
| Commercial | 3,856,445 |
| Resale - Campbell | 3,919 |
| Resale - Belle river | 70,983 |
| Resale - MPPA | 81,652 |
| Standby power and security lights | 984 |
| Late fees | 49,179 |
| Other | 59,365 |
| | <hr/> |

| | |
|--------------------------------|-----------------------|
| Total operating revenue | <hr/> 5,611,958 <hr/> |
|--------------------------------|-----------------------|

Operating expense

| | |
|-----------------------------------|--------|
| Operations and maintenance | |
| Generation | |
| Fuel | 20,812 |
| Maintenance | 26,842 |
| Operating supervision/engineering | 5,491 |
| Generation | 13,410 |
| Other employee compensation | 16,733 |
| Other | 19,678 |
| | <hr/> |

| | |
|------------------|---------------------|
| Total generation | <hr/> 102,966 <hr/> |
|------------------|---------------------|

| | |
|----------------|-----------|
| Purchase power | |
| Campbell | 1,829,281 |
| Belle river | 808,669 |
| Traverse City | 258,233 |
| Other | 782,351 |
| | <hr/> |

| | |
|-----------------------|-----------------------|
| Total purchased power | <hr/> 3,678,534 <hr/> |
|-----------------------|-----------------------|

(Continued)

LOWELL LIGHT & POWER AND CABLE TELEVISION

LIGHT & POWER SCHEDULE OF OPERATING REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006

| | |
|--|-------------------|
| Operating expense | |
| Operations and maintenance | |
| Distribution | |
| Maintenance | |
| Overhead lines | \$ 246,244 |
| Street lighting | 3,424 |
| Meters | 2,506 |
| Structures | 30,417 |
| Line transformers | 6,490 |
| Operating supervision and engineering | 36,442 |
| Load dispatching | 3,187 |
| Substation | 3,354 |
| Underground lines | 24,301 |
| Other | 105,322 |
| Customer installation | 14,480 |
| Total distribution | <u>476,167</u> |
| Customer accounting | |
| Meter reading | 35,048 |
| Customer records and collections | 43,934 |
| Uncollectible accounts expense | 17,437 |
| Customer assistance | 3,242 |
| Supervision | 6,626 |
| Other | 9,399 |
| Total customer accounting | <u>115,686</u> |
| General and administrative | |
| Legal and accounting | 18,867 |
| Other employee compensation - unallocated | 129,865 |
| Payroll tax - unallocated | 45,860 |
| Pension and benefits - unallocated | 213,393 |
| Injuries, damage, and safety - unallocated | 17,205 |
| Administrative and general wages | 93,661 |
| Supplies | 50,359 |
| Demonstration, sales and advertising | 7,156 |
| Insurance | 26,279 |
| Conferences and special meetings | 27,510 |
| Property tax | 24,009 |
| Other | 1,180 |
| Total general and administrative | <u>655,344</u> |
| Total operations and maintenance | <u>5,028,697</u> |
| Depreciation | <u>588,676</u> |
| Total operating expense | <u>5,617,373</u> |
| Operating income (loss) | <u>\$ (5,415)</u> |

(Concluded)

LOWELL LIGHT & POWER AND CABLE TELEVISION

CABLE TELEVISION SCHEDULE OF OPERATING REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006

Operating revenue

| | |
|---------------------|------------|
| Sales | |
| Basic | \$ 779,419 |
| HBO | 11,771 |
| Cinemax | 5,269 |
| Choices/digital | 64,354 |
| Showtime and movie | 3,813 |
| Pay per view | 2,952 |
| Installation Fees | 6,236 |
| Internet | 260,681 |
| Other monthly sales | 7,904 |
| Late fees | 24,911 |
| Other | 81,132 |

| | |
|--------------------------------|------------------|
| Total operating revenue | 1,248,442 |
|--------------------------------|------------------|

Operating expense

| | |
|----------------------------|---------|
| Operations and maintenance | |
| Programming | |
| Basic | 355,316 |
| Basic - digital | 18,508 |
| HBO | 10,181 |
| HBO - digital | 10,068 |
| Cinemax | 2,782 |
| Cinemax - digital | 2,013 |
| Showtime/movie | 2,491 |
| Showtime/movie - digital | 4,960 |
| Choices/digital | 12,071 |
| Program guide | 8,071 |
| Internet | 139,695 |
| Other | 2,468 |

| | |
|--------------------------|----------------|
| Total programming | 568,624 |
|--------------------------|----------------|

Distribution

| | |
|---------------------------------------|--------|
| Maintenance | 24,183 |
| Operating supervision and engineering | 15,316 |
| Overhead lines | 5,169 |
| Underground lines | 847 |
| Other | 18,172 |

| | |
|---------------------------|---------------|
| Total distribution | 63,687 |
|---------------------------|---------------|

(Continued)

LOWELL LIGHT & POWER AND CABLE TELEVISION

CABLE TELEVISION SCHEDULE OF OPERATING REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006

Operating expense

Operations and maintenance

General and administrative

| | |
|---|-----------|
| Legal and accounting | \$ 20,831 |
| Other employee compensation - unallocated | 42,811 |
| Payroll tax - unallocated | 22,069 |
| Pension and benefits - unallocated | 92,318 |
| Franchise fee | 42,075 |
| Demonstration, sales and advertising | 4,248 |
| Administrative and general wages | 47,050 |
| Supplies | 31,933 |
| Operations | 47,909 |
| Maintenance | 34,028 |
| Customer records and collections | 46,750 |
| Insurance | 1,747 |
| Injuries, damage, and safety | 3,378 |
| Rent | 13,595 |
| Customer accounts | 26,789 |
| Conferences and special meetings | 3,498 |
| Other | 1,926 |

| | |
|----------------------------------|----------------|
| Total general and administrative | <u>482,955</u> |
|----------------------------------|----------------|

| | |
|----------------------------------|-----------|
| Total operations and maintenance | 1,115,266 |
|----------------------------------|-----------|

| | |
|--------------|---------------|
| Depreciation | <u>63,871</u> |
|--------------|---------------|

| | |
|---------------------------------|------------------|
| Total operating expenses | <u>1,179,137</u> |
|---------------------------------|------------------|

| | |
|-------------------------|------------------|
| Operating income (loss) | <u>\$ 69,305</u> |
|-------------------------|------------------|

(Concluded)